

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Kent County Road Commission	County Kent
Audit Date December 31, 2004	Opinion Date March 17, 2005	Date Accountant Report Submitted To State: April 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

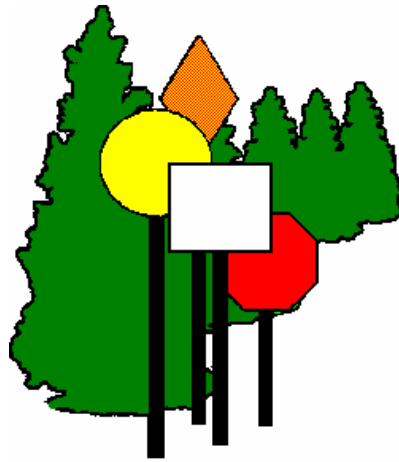
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address Bridgewater Place, Suite 600, 333 Bridge Street, NW	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 			



Kent County Road Commission

(a component unit of Kent County)

Financial Report
with Supplementary Information
December 31, 2004

Kent County Road Commission

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Governmental Fund Balance Sheet - Statement of Net Assets	8
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance - Statement of Activities	9
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets - Employees' Pension Trust Fund	10
Statement of Changes in Fiduciary Net Assets - Employees' Pension Trust Fund	11
Notes to Financial Statements	12-24
Required Supplementary Information	
Budgetary Comparison Schedule - Road Fund	25
Retirement System Schedules:	
Analysis of Funding Progress	26
Schedule of Employer Contributions	26
Other Supplementary Information	
Schedule of Administrative Expenditures - Road Fund	27
Schedule of Distributive Expenditures - Road Fund	28
Analysis of Changes in Road Fund Balance	29

Independent Auditor's Report

To the Board of Road Commissioners
Kent County Road Commission

We have audited the accompanying basic financial statements of the Kent County Road Commission (a component unit of Kent County, Michigan) as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Kent County Road Commission at December 31, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

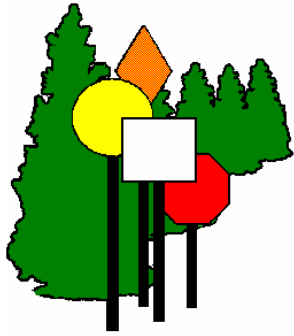
The management's discussion and analysis and the required supplementary information presented on pages 3 through 7 and pages 25 and 26, respectively, are not required parts of the basic financial statements, but are supplemental information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Road Commissioners
Kent County Road Commission

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Kent County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 17, 2005



Board of County Road Commissioners of the County of Kent

1500 Scribner Ave., N.W. Grand Rapids, MI 49504-3299
(616) 242-6900 Fax # (616) 242-6980

Chairman
Dale H. Sommers
Vice-Chairman
John W. Weiss
Commissioner
Mark C. Jansen
Managing Director
Jon F. Rice, P.E.
Director of Finance
John L. Strauss

Management's Discussion and Analysis

This section of the Kent County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended on December 31, 2004. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

Financial Highlights

- The Road Commission's total net assets increased by approximately \$28 million.
- During the year, unrestricted net assets decreased by approximately \$6 million.
- Total revenue sources for the year of \$57 million exceeded expenditures of \$42 million by \$15 million.
- \$49 million was invested in capital assets during the year.
- \$13 million of infrastructure was contributed.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding administrative expenditures, distributive expenditures, and Road Fund balances.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Financial Analysis of the Road Commission as a Whole

Net Assets

The Road Commission's combined net assets increased during 2004 by approximately \$28 million, ending the year at \$258 million. Table I below shows the composition of the Road Commission's net assets at December 31, 2004.

TABLE I

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
	(in thousands)	
Assets		
Current and other assets	\$ 20,272	\$ 28,933
Capital assets	<u>244,458</u>	<u>212,085</u>
Total assets	264,730	241,018
Liabilities		
Long-term liabilities outstanding	3,833	3,536
Other liabilities	<u>2,692</u>	<u>6,807</u>
Total liabilities	<u>6,525</u>	<u>10,343</u>
Net Assets		
Invested in capital assets - Net of related debt	244,458	211,285
Unrestricted	<u>13,747</u>	<u>19,390</u>
Total net assets	<u>\$ 258,205</u>	<u>\$ 230,675</u>

Changes in Net Assets

The Road Commission's change in net assets was a combination of various revenue sources and expense categories as shown in Table 2.

The Michigan Transportation Fund revenue is the result of a statutory formula that is structured to share various fuel taxes and license fees collected by the State of Michigan with cities, road commissions, and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2004, there was a 2.2 percent increase in receipts caused by changes in the State of Michigan's interdepartmental grants and a change in the trailer tax. Federal and state aid increased from the 2003 level by more than \$5 million driven by the completion of projects that are partially funded by grants.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Overall, expenditures decreased by nearly \$6 million over last year. Expenditures for maintenance, including activities on all local, primary, and state trunkline roads, were down \$2 million from last year's elevated level. The depreciation and depletion amount decreased by \$4 million compared to the prior year, partly due to changes in infrastructure.

TABLE 2

	Governmental Activities	
	2004	2003
	(in thousands)	
Revenue		
Michigan Transportation Fund	\$ 30,966	\$ 30,293
State trunkline maintenance	5,393	5,307
Federal and state aid	13,326	8,236
Contributions for work performed for others	5,393	5,487
Contributions for construction of facilities	1,194	-
Interest	360	424
Gain on sale of assets	206	124
Property rentals	130	135
Miscellaneous	3	80
Total revenue	56,971	50,086
Expenses		
Maintenance	23,857	25,745
Equipment	5,443	5,095
Less equipment rentals charged to other expenditures	(7,422)	(8,047)
Administrative	1,249	1,963
Work performed for units of government and other	1,596	1,937
Depreciation and depletion	17,501	21,404
Interest	16	16
Total expenses	42,240	48,113
Contribution of Infrastructure	12,799	3,929
Change in Net Assets	\$ 27,530	\$ 5,902

Financial Analysis of Road Commission's Funds

The fund balance of the unrestricted governmental fund - Road Fund ended the year at \$18 million, which is approximately \$5 million less than the previous year. A \$1 million portion of this balance is designated for road projects deferred to 2005. The remaining undesignated fund balance is \$17 million, which is \$5 million greater than in 2003.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

The Road Commission amended its 2004 budgeted revenue upward by less than \$1 million as most items were expected to come very close to original expectations. The revenue results of \$57 million were \$1 million short of the budgeted amount of \$58 million. This revenue shortfall was a combination of \$2 million of work performed for others not realized and an additional \$1 million from various revenues exceeding their budgeted amounts.

The expenditure budget was increased by less than \$1 million and came in at nearly \$4 million under budget. Construction was under budget by more than \$2 million and maintenance was under budget by nearly \$1 million. Other smaller variances are the remaining portion of the favorable variance.

Capital Assets

The Road Commission had approximately \$244 million in capital assets (net of depreciation) at the end of the year, which was an increase of \$32 million from 2003. The infrastructure amount includes expenditures since 1980.

	Governmental Activities	
	2004	2003
	(in thousands)	
Land and land improvements	\$ 2,378	\$ 1,580
Work in process	-	291
Buildings	8,073	5,497
Road equipment	3,607	3,282
Shop equipment	185	27
Nonrental equipment	6	7
Office equipment	51	134
Engineering equipment	30	35
Gravel pits	1	1
Yard and storage bins	1,149	651
Infrastructure	228,979	200,580
Total	<u>\$ 244,459</u>	<u>\$ 212,085</u>

Infrastructure improvements during the year involved constructing or reconstructing roads, bridges, or intersections. The various townships within the County of Kent participated in work done on the local system. During the year, 68 miles of road improvements were made, which consist of 41 miles of primary roads and 27 miles of local roads. The eight safety improvements to intersections that were done during the year were on the primary road system.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The unfavorable economic conditions continue within the State of Michigan causing a small reduction (0.7 percent) in the anticipated Michigan Transportation Funds (MTF) for 2005 compared to 2004.

World political and economic conditions may affect crude oil supplies and prices that could affect the Road Commission's cost of fuel for operation and asphalt paving prices. A significant cost increase in these commodities may result in a shift in priorities and project deferrals.

The International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America, Local No. 214 represent all full-time hourly Road Commission employees. There is a contract in place through May 31, 2005.

Contacting the Road Commission's Financial Management

The financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Kent County Road Commission, 1500 Scribner Ave., N.W., Grand Rapids, Michigan 49504 or visit us on the Web at: www.KentCountyRoads.net.

Kent County Road Commission

Governmental Fund Balance Sheet - Statement of Net Assets December 31, 2004

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash, cash equivalents, and investments held by the Treasurer of the County of Kent (Note 3)	\$ 11,517,194	\$ -	\$ 11,517,194
Accounts receivable	7,135,040	-	7,135,040
Inventory	1,296,300	-	1,296,300
Prepaid expenses and other assets	312,211	-	312,211
Net pension asset (Note 9)	-	11,225	11,225
Capital assets - Net (Note 4):			
Assets being depreciated	-	242,080,823	242,080,823
Assets not being depreciated	-	2,377,571	2,377,571
Total assets	\$ 20,260,745	244,469,619	264,730,364
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 993,770	-	993,770
Advances	919,549	-	919,549
Accrued liabilities and other	778,654	-	778,654
Other long-term liabilities (Note 5)	-	3,833,061	3,833,061
Total liabilities	2,691,973	3,833,061	6,525,034
Fund Balances - Unreserved			
Designated for road projects	1,441,500	(1,441,500)	-
Undesignated	16,127,272	(16,127,272)	-
Total fund balances	17,568,772	(17,568,772)	-
Total liabilities and fund balances	\$ 20,260,745		
Net Assets			
Invested in capital assets - Net of related debt		244,458,394	244,458,394
Unrestricted		13,746,936	13,746,936
Total net assets		\$ 258,205,330	\$ 258,205,330

Kent County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended December 31, 2004

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Activities
Revenue			
Michigan Transportation Fund:			
Primary road system	\$ 25,261,610	\$ -	\$ 25,261,610
Local road system	5,704,417	-	5,704,417
State trunkline maintenance	5,392,819	-	5,392,819
Federal and state aid	13,325,628	-	13,325,628
Contributions for work performed for others	5,392,851	-	5,392,851
Contributions for construction of facilities	1,193,829	-	1,193,829
Interest	360,534	-	360,534
Proceeds from sale of fixed assets	221,525	(221,525)	-
Gain on sale of assets	-	206,471	206,471
Property rentals	130,494	-	130,494
Miscellaneous	2,707	-	2,707
Total revenue	56,986,414	(15,054)	56,971,360
Expenditures			
Current:			
Construction:			
Primary	27,126,725	(27,126,725)	-
Local	4,144,707	(4,144,707)	-
Maintenance:			
Primary	7,895,663	-	7,895,663
Local	10,168,731	-	10,168,731
State trunkline maintenance	5,792,643	-	5,792,643
Equipment:			
Direct	3,853,127	(1,428,790)	2,424,337
Indirect	2,274,682	(228,181)	2,046,501
Operating	972,289	-	972,289
Capital outlay	5,804,605	(5,804,605)	-
Less equipment rentals charged to other expenditures	(7,421,681)	-	(7,421,681)
Administrative	1,083,444	165,477	1,248,921
Work performed for local units of government and others	1,595,540	-	1,595,540
Depreciation and depletion	(1,829,039)	19,330,237	17,501,198
Debt service:			
Principal retirement	800,000	(800,000)	-
Interest	13,591	2,833	16,424
Total expenditures	62,275,027	(20,034,461)	42,240,566
Contribution of Infrastructure	-	12,799,366	12,799,366
Change in Fund Balance/Net Assets	(5,288,613)	32,818,773	27,530,160
Fund Balance/Net Assets - Beginning of year	22,857,385	207,817,785	230,675,170
Fund Balance/Net Assets - End of year	\$ 17,568,772	\$ 240,636,558	\$ 258,205,330

Kent County Road Commission

Statement of Fiduciary Net Assets Employees' Pension Trust Fund December 31, 2004

Assets

Cash and cash equivalents	\$ 11,285
Investments - At fair value:	
Bond mutual funds	245,338
Stock mutual funds	392,024
Other	<u>1,353</u>
Total investments	<u>638,715</u>

Net Assets - Held in trust for pension benefits	<u><u>\$ 650,000</u></u>
--	---------------------------------

Kent County Road Commission

Statement of Changes in Fiduciary Net Assets Employees' Pension Trust Fund Year Ended December 31, 2004

Additions

Investment income:	
Interest and dividends	\$ 17,971
Net appreciation in fair value of investments	<u>26,482</u>
Net investment income	44,453
Employer contributions	<u>13,184</u>
Total additions	57,637

Deductions

Benefit payments	112,262
Administrative expenses	<u>5,375</u>
Total deductions	<u>117,637</u>

Change in Net Assets (60,000)

Net Assets - Beginning of year 710,000

Net Assets - End of year \$ 650,000

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 1 - Significant Accounting Policies

The Road Commission of the County of Kent, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Kent, Michigan (the "County"). The Road Commission's financial statements will be included in the basic financial statements of the County as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been separately stated in conjunction with the government-wide financial statements.

The Road Commission is comprised of a single governmental fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 1 - Significant Accounting Policies (Continued)

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Interest earned on investments is recorded on the accrual basis. In addition, the Road Commission reports the Employees' Pension Trust Fund as a fiduciary fund. The Employees' Pension Trust Fund accumulates resources for pension benefit payments to qualified retirees or beneficiaries.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Items - Inventory, principally consisting of road material, salt, signs, and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as all land evidenced by a deed, buildings and building improvements with a minimum cost of \$5,000 and \$2,500, respectively, all infrastructure, all licensed and road maintenance equipment, computers and computer software costing more than \$1,000 and \$2,500, respectively, and all other equipment with a minimum cost of \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line or units of production methods over the following useful lives:

	Useful Life - Years
Buildings and storage bins	25-50
Gravel pits	Various
Equipment	3-8
Roads	8-20
Other infrastructure	20-40

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to allow employees to accumulate earned but unused sick and vacation pay benefits. The Road Fund recognizes the expenditure when the obligations come due for payment; the statement of net assets and the statement of activities recognize the expense at the time the hours are earned by the employees.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities of the governmental activities. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent management's tentative plans, which are subject to change.

Other accounting policies are disclosed in the following notes to the financial statements.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2007.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental Fund - Fund Balance	\$ 17,568,772
Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund	244,458,394
Net pension asset not reported in the governmental fund	11,225
Compensated absences and provision for workers' compensation and health uninsured losses are not reported in the governmental fund	<u>(3,833,061)</u>
Net Assets - Governmental Activities	<u>\$ 258,205,330</u>

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net Change in Fund Balances - Total Governmental Funds \$ (5,288,613)

The governmental fund reports capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 19,479,727

Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund 12,799,366

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental fund, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold (15,054)

Repayment of bond principal is an expenditure in the governmental fund, but not in the statement of activities (where it reduces long-term debt) 800,000

Increases in accumulated employee sick and vacation pay, as well as estimated workers' compensation and health claims, are recorded when earned in the statement of activities (297,008)

Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the governmental fund when due (2,833)

The change in the net pension obligation is not reported in the governmental fund 54,575

Change in Net Assets of Governmental Activities \$ 27,530,160

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 3 - Cash, Cash Equivalents, and Investments

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Employees' Pension Trust Fund is also authorized by Michigan Public Act 55 of 1982 to invest in certain repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local governmental obligations, and certain other specified investment vehicles.

The Road Commission participates in the Money Max Cash Management System of the County of Kent (a pooled investment fund created in accordance with Michigan Public Act 20 of 1943, as amended). The Road Fund's cash, cash equivalents, and investments during the year consisted solely of the above-mentioned pooled cash management fund. Since the monies are pooled for investment purposes with other County of Kent surplus monies, it is not possible to segregate the fund between cash, cash equivalents, and investments. The Road Commission believes that the investments in this fund comply with the applicable State of Michigan regulations.

The Employees' Pension Trust Fund's investments during the year consisted almost entirely of mutual funds. There was approximately \$637,000 and \$687,000 invested in such funds at December 31, 2004 and 2003, respectively. Investments are normally categorized to give an indication of the level of risk assumed by the Road Commission; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the funds comply with the investment authority noted above.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land and land improvements	\$ 1,579,571	\$ 798,000	\$ -	\$ 2,377,571
Work in process	291,316	-	291,316	-
Subtotal	1,870,887	798,000	291,316	2,377,571
Capital assets being depreciated:				
Buildings	8,853,425	2,788,224	-	11,641,649
Road equipment	14,121,955	1,768,858	767,453	15,123,360
Shop equipment	348,831	166,412	-	515,243
Nonrental equipment	60,320	-	-	60,320
Office equipment	516,783	19,815	-	536,598
Engineering equipment	261,184	7,445	-	268,629
Gravel pits	102,986	-	-	102,986
Yard and storage bins	1,419,269	561,206	-	1,980,475
Infrastructure	369,310,326	44,070,797	-	413,381,123
Subtotal	394,995,079	49,382,757	767,453	443,610,383
Less accumulated depreciation for:				
Buildings	(3,355,591)	(212,352)	-	(3,567,943)
Road equipment	(10,839,990)	(1,428,790)	(752,399)	(11,516,381)
Shop equipment	(321,428)	(9,220)	-	(330,648)
Nonrental equipment	(53,718)	(1,023)	-	(54,741)
Office equipment	(382,665)	(102,489)	-	(485,154)
Engineering equipment	(226,318)	(12,664)	-	(238,982)
Gravel pits	(102,460)	-	-	(102,460)
Yard and storage bins	(768,622)	(62,500)	-	(831,122)
Infrastructure	(168,729,969)	(15,672,160)	-	(184,402,129)
Subtotal	(184,780,761)	(17,501,198)	(752,399)	(201,529,560)
Net capital assets being depreciated	210,214,318	31,881,559	15,054	242,080,823
Net capital assets	\$ 212,085,205	\$ 32,679,559	\$ 306,370	\$ 244,458,394

Infrastructure assets include roads, bridges, drainage structures, traffic signals, etc. These infrastructure assets are the largest asset class of the Road Commission.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 5 - Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self-insurance Pool. As a member of the pool, the Road Commission is partially uninsured for general and auto liability, with maximum losses per occurrence of \$25,000 and \$1,000, respectively, and no limit in the aggregate.

Effective January 1, 2000, the Road Commission became a member of the County Road Association Self-insurance Fund. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred on or after January 1, 2000. In 1999 and prior years, the Road Commission was partially insured with a private carrier for workers' compensation, and as such, assumed claim costs within certain limits. Several claims remain open for those policy years and, as such, the Road Commission has estimated a liability for those claims, as summarized below.

The Road Commission estimates the liability for workers' compensation and health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as an estimate for those that have not yet been reported. Debt service for this obligation is intended to be provided by the Road Fund.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union and nonunion employees earn sick and vacation time based on time of service with the Road Commission.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 5 - Other Long-term Liabilities (Continued)

Changes in estimated liabilities are as follows:

	2004	2003
Workers' Compensation and Health Liability -		
Estimated liability - Beginning of year	\$ 129,923	\$ 149,122
Estimated claims incurred, including changes in estimates	202,487	(19,199)
Estimated liability - End of year	332,410	129,923
Other - Compensated absences	3,500,651	3,406,130
Total other long-term liabilities	<u>\$ 3,833,061</u>	<u>\$ 3,536,053</u>

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2004:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
1999 Michigan Transportation Fund revenue notes, maturing through 2004, interest rate of 4.25%	<u>\$ 800,000</u>	<u>\$ (800,000)</u>	<u>\$ -</u>	<u>\$ -</u>

Interest

Expenditures for interest of the Road Commission for the years ended December 31, 2004 and 2003 were \$13,591 and \$47,566, respectively.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 6 - Long-term Debt (Continued)

Operating Leases

The Road Commission leases road equipment under several operating leases. The following is a schedule of future lease payments as of December 31, 2004:

2005	\$ 193,347
2006	97,739
2007	22,172

The Road Commission also leases equipment, as needed, on a month-to-month basis. Total rent expense was approximately \$544,000 and \$546,000 for 2004 and 2003, respectively.

Note 7 - Contingent Liability - Lawsuits

Numerous lawsuits against the Road Commission are pending at December 31, 2004. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. However, it is the opinion of management that the ultimate liability in excess of the amount provided for at December 31, 2004, if any, would be immaterial to the Road Commission's financial statements.

Note 8 - Budget Information

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 9 - Pension Plans

During a prior year, all active employees in the various defined benefit pension plans elected to terminate their participation in the plans and transfer their interests into a defined contribution pension plan. The Road Commission currently maintains a defined benefit pension plan for individuals who retired before formation of the defined contribution plan. This single plan is the result of a merger of the former plans. Information relative to both plan types is as follows:

Defined Contribution Pension Plan

The Road Commission provides pension benefits to all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. As established by Board resolution, the Road Commission contributes up to 6 percent of employees' gross earnings. In accordance with these requirements, the Road Commission contributed approximately \$720,000 and \$710,000 for 2004 and 2003, respectively.

Defined Benefit Pension Plan

Plan Description

As noted above, the Road Commission maintains the Employees' Pension Trust Fund, which is a single-employer defined benefit pension plan that provides retirement and death benefits to retirees and their beneficiaries. Standard Federal Bank serves as trustee of the plan. At December 31, 2004 and 2003, membership in the plan consisted of 31 and 32, respectively, of retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

Contributions

Employer contributions to the plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Due to the current status of the plan, the only obligation of the employer is to fund any unfunded actuarial accrued liability. Administrative costs of the plan are financed through investment earnings.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 9 - Pension Plans (Continued)

Annual Pension Cost

Over the last several years, the Road Commission has contributed more than was required by the actuarial valuation. As of December 31, 2004, a net pension asset was calculated as follows:

Annual required contribution	\$ 13,184
Interest on net pension asset	(4,361)
Adjustment to annual required contribution	<u>58,936</u>
Annual pension cost	67,759
Contributions made	<u>13,184</u>
Change in net pension asset	54,575
Net pension asset:	
Beginning of year	<u>65,800</u>
End of year	<u><u>\$ 11,225</u></u>

In the most recent actuarial valuation dated January 1, 2004, an unfunded actuarial accrued liability (UAAL) of \$88,400 was calculated. The actuary recommended a level annual payment of \$13,184 over 10 years, beginning in 2004, to provide the funds necessary to eliminate the UAAL. The recommendation was determined using the aggregate actuarial cost method. A significant actuarial assumption of an 8 percent investment rate of return was used in the valuation. In addition, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility.

Kent County Road Commission

Notes to Financial Statements December 31, 2004

Note 9 - Pension Plans (Continued)

Reserves

As of December 31, 2004, amounts held by the plan are reserved entirely for retired benefit payments.

Three-year Trend Information

	Fiscal Year Ended December 31		
	2004	2003	2002
Annual pension cost (APC)	\$ 67,759	\$ 30,900	\$ 20,700
Percentage of APC contributed	19%	-	785%
Net pension asset	\$ 11,225	\$ 65,800	\$ 96,700

Note 10 - Postemployment Benefits

The Road Commission provides health care benefits to certain salaried employees upon retirement, in accordance with Road Commission policy. Currently, 40 retirees are eligible. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. This amounted to approximately \$239,000 and \$190,000 for 2004 and 2003, respectively.

Required Supplementary Information

Kent County Road Commission

Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund:				
Primary road system	\$ 17,351,919	\$ 24,839,000	\$ 25,261,610	\$ 422,610
Local road system	12,740,081	5,453,000	5,704,417	251,417
State trunkline maintenance	4,832,000	4,832,000	5,392,819	560,819
Federal and state aid	13,439,000	13,439,000	13,325,628	(113,372)
Contributions for work performed for others	7,590,220	7,590,220	5,392,851	(2,197,369)
Contributions for facilities construction	800,000	1,187,149	1,193,829	6,680
Interest	417,000	360,000	360,534	534
Proceeds from sale of fixed assets	141,000	221,600	221,525	(75)
Property rentals	126,000	130,500	130,494	(6)
Miscellaneous	5,000	2,900	2,707	(193)
Total revenue	57,442,220	58,055,369	56,986,414	(1,068,955)
Expenditures				
Current:				
Construction:				
Primary	27,795,000	27,953,820	27,126,725	827,095
Local	5,785,818	5,850,323	4,144,707	1,705,616
Maintenance:				
Primary	8,828,200	9,054,476	7,895,663	1,158,813
Local	9,833,772	10,148,035	10,168,731	(20,696)
State trunkline maintenance	5,410,000	5,410,000	5,792,643	(382,643)
Equipment:				
Direct	3,588,000	3,893,149	3,853,127	40,022
Indirect	2,208,000	2,407,591	2,274,682	132,909
Operating	868,000	933,410	972,289	(38,879)
Capital outlay	5,587,857	5,667,857	5,804,605	(136,748)
Less equipment rentals charged to other expenditures	(6,664,000)	(7,139,000)	(7,421,681)	282,681
Administrative	1,124,500	1,159,912	1,083,444	76,468
Work performed for units of government and others	1,842,000	1,581,247	1,595,540	(14,293)
Less provision for depreciation and depletion	(1,636,000)	(1,829,300)	(1,829,039)	(261)
Debt service:				
Principal retirement	800,000	800,000	800,000	-
Interest	13,566	13,566	13,591	(25)
Total expenditures	65,384,713	65,905,086	62,275,027	3,630,059
Excess of Expenditures Over Revenue	\$ (7,942,493)	\$ (7,849,717)	(5,288,613)	\$ 2,561,104
Fund Balance - Beginning of year			22,857,385	
Fund Balance - End of year			\$ 17,568,772	

Kent County Road Commission

Required Supplementary Information Employees' Pension Trust Fund Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll
01/01/98	\$ 241,100	\$ 1,196,300	\$ (955,200)	20%	*	*
01/01/00	500,400	1,000,600	(500,200)	50%	*	*
01/01/02	747,700	910,200	(162,500)	82%	*	*
01/01/04	710,000	798,400	(88,400)	89%	*	*

* Not applicable due to no active employees during this period.

Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2000	\$ 70,100	357
2001	70,100	1033
2002	24,200	671
2003	24,200	-
2004	13,184	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate
Amortization method	Level annual funding
Remaining amortization period	9 years
Asset valuation method	Smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	None
Cost of living adjustments	None

Other Supplementary Information

Kent County Road Commission

Other Supplementary Information Schedule of Administrative Expenditures - Road Fund

	Year Ended December 31	
	2004	2003
Personnel costs	\$ 1,036,613	\$ 982,659
Depreciation	50,681	49,542
Utilities	158,600	173,481
Information systems	49,223	90,683
Professional services	84,920	140,381
Insurance	65,286	89,281
Advertising	4,270	10,572
Supplies and postage	69,706	77,202
Equipment rental	46,409	56,076
Repairs and maintenance	87,392	115,728
Other	68,552	70,665
Subtotal	1,721,652	1,856,270
Less administrative credits:		
State trunkline overhead recovered	(586,908)	(476,515)
Material handling	(42,917)	(47,190)
Purchase discounts	(8,383)	(40,451)
Total administrative expenditures	<u>\$ 1,083,444</u>	<u>\$ 1,292,114</u>

Kent County Road Commission

Other Supplementary Information Schedule of Distributive Expenditures - Road Fund

	Year Ended December 31	
	2004	2003
Fringe benefits:		
Vacation and holiday	\$ 1,252,892	\$ 1,219,399
Sick leave	423,193	320,982
Payroll taxes	945,243	956,278
Retirement plan expense	721,235	712,092
Hospitalization, dental, and life insurance	2,746,723	2,267,038
Longevity	77,625	75,544
Workers' compensation	320,885	396,165
Unemployment compensation	16,143	3,903
Other	128,548	114,124
Total fringe benefits	6,632,487	6,065,525
Other distributive expenditures:		
Engineering services	813,554	997,833
Maintenance	397,189	359,065
Traffic and safety services	651,667	634,141
Planning and human resources	250,618	220,998
Liability insurance	399,050	499,264
Inventory handling and adjustments	94,884	214,550
Yard and storage facilities	232,177	210,992
Total other distributive expenditures	2,839,139	3,136,843
Total distributive expenditures	9,471,626	9,202,368
Less fringe benefits charged to other distributive expenditures	(695,901)	(662,366)
Less amounts charged for work performed	(1,660,043)	(1,443,223)
Total fringe and other distributive expenditures	<u>\$ 7,115,682</u>	<u>\$ 7,096,779</u>
Charges distributed to:		
Construction:		
Primary	\$ 1,180,314	\$ 1,446,012
Local	515,766	494,964
Maintenance:		
Primary	1,640,674	1,612,566
Local	2,292,997	2,188,884
Equipment:		
Direct	464,598	437,669
Indirect	469,086	428,125
Operating	80,079	74,470
Administrative	400,075	364,902
Capital outlay	72,093	49,187
Total distributive expenditures	<u>\$ 7,115,682</u>	<u>\$ 7,096,779</u>

Kent County Road Commission

Other Supplementary Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2004

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Act 51	\$ 25,257,972	\$ 5,708,055	\$ -	\$ 30,966,027
State trunkline maintenance	-	-	5,392,819	5,392,819
Federal/State sources	14,519,457	-	-	14,519,457
Revenue from local governments	-	3,256,234	1,591,772	4,848,006
Interest, fees, and other revenue	171,345	160,438	928,322	1,260,105
Total revenue	39,948,774	9,124,727	7,912,913	56,986,414
Expenditures				
Current:				
Construction/Heavy maintenance	27,126,726	4,144,706	-	31,271,432
Routine maintenance	7,895,663	10,168,731	-	18,064,394
State maintenance	-	-	5,792,643	5,792,643
Equipment and capital outlay	(355,070)	2,042,498	1,966,555	3,653,983
Administrative	769,112	314,332	-	1,083,444
Other services	-	-	1,595,540	1,595,540
Debt service:				
Principal retirement	-	-	800,000	800,000
Interest	-	-	13,591	13,591
Total expenditures	35,436,431	16,670,267	10,168,329	62,275,027
Excess of Revenue Over (Under) Expenditures	4,512,343	(7,545,540)	(2,255,416)	(5,288,613)
Fund Balances - Beginning of year	1,636,898	10,180,944	11,039,543	22,857,385
Fund Balances - End of year	<u>\$ 6,149,241</u>	<u>\$ 2,635,404</u>	<u>\$ 8,784,127</u>	<u>\$ 17,568,772</u>